

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>ATLANTA COMMUNITY SCHOOLS</b>	County <b>MONTMORENCY</b>
Audit Date <b>06/30/2004</b>	Opinion Date <b>09/26/2004</b>	Date Accountant Report Submitted to State: <b>11/12/2004</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

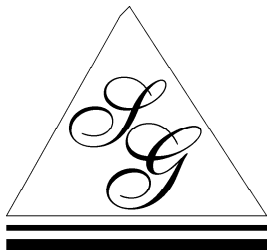
You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

### We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>STEPHENSON, GRACIK &amp; CO., P.C.</b>			
Street Address <b>325 NEWMAN STREET, PO BOX 592</b>	City <b>EAST TAWAS</b>	State <b>MI</b>	ZIP <b>48730</b>
Accountant Signature 		Digitally signed by Stephenson, Gracik and Co., P.C. DN: cn=Stephenson, Gracik and Co., P.C., c=US Date: 2004.08.12 09:29:29 -0500 Reason: I am approving this document	



*Stephenson Gracik & Co., P.C.*

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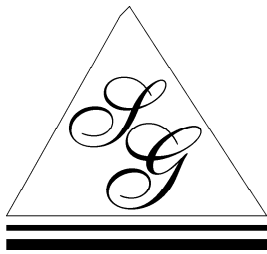
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Herman A Bertuleit, CPA

ATLANTA COMMUNITY SCHOOLS  
MONTMORENCY COUNTY, MICHIGAN

AUDITORS' REPORT  
YEAR ENDED JUNE 30, 2004

**AUDITORS' REPORT**

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# *Stephenson Gracik & Co., P.C.*

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Herman A Bertuleit, CPA

August 26, 2004

## Independent Auditors' Report

Board of Education  
Atlanta Community Schools  
Montmorency County, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Atlanta Community Schools, Montmorency County, Michigan, as of and for the year ended June 30, 2004, which collectively comprise the School District's basic financial statements, as listed in the index. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Atlanta Community Schools, as of June 30, 2004, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 26, 2004, on our consideration of Atlanta Community Schools', Montmorency County, Michigan, internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial statements have been prepared assuming that Atlanta Community Schools, Montmorency, Michigan, will continue as a going concern. As discussed in Note 18 to the financial statements, the Atlanta Community Schools' General Fund had a net loss of \$2,464 for the year ending June 30, 2004, resulting in an ending fund balance of \$51,727. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 18. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As described in Note 2, the School District has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements -and Management's Discussion and Analysis -for State and Local Governments*, as of June 30, 2004.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Board of Education  
Atlanta Community Schools  
August 26, 2004  
Page Two

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Atlanta Community Schools' basic financial statements. The combining and individual nonmajor fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Stephenson, Grubb & Co., P.C.*

# Atlanta Community Schools

10500 County Road 489

PO Box 619

Atlanta, Michigan 49709

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Telephone - 989.785.4785  
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Fax - 989.785.2611

*Jr./Sr. High School*  
Telephone - 989.785.4842  
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As management of the Atlanta Community Schools, (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2004.

The management's discussion and analysis is provided at the beginning of the audit to provide in layman's terms the past and current position of the school district's financial condition. This summary should not be taken as a replacement for the audit which consists of the financial statements and other supplemental information that presents all the District's revenues and expenditures by program for the General Fund, Food Service Fund, Athletics Fund, Debt Service Fund and Capital Projects Fund. Comparative information will be provided in future years when prior year information is available.

## FINANCIAL HIGHLIGHTS

Our financial statements provide these insights into the results of this year's operations.

The overall condition of all funds and governmental activities is guarded for the District. The general fund fund balance at June 30, 2004 of \$51,727 represents approximately 5 days of budgeted expenditures for the fiscal year ended June 30, 2005. However, a balanced budget has been adopted for the 2004-2005 fiscal year which will be closely monitored during the upcoming school year.

The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$3,335,831 (net assets). Of this amount, \$219,204 represents deficit unrestricted net assets.

The District's total net assets decreased by \$108,107. This represents the degree to which increases in ongoing expenses have surpassed similar increases in ongoing revenues.

As of the close of the current fiscal year, the District's governmental funds reported combined ending funds balances of \$262,853, a decrease of \$48,052 in comparison with the prior year. Of this amount \$58,551 is available for spending at the District's discretion (unreserved fund balance). This represents 1.2% of the total expenditures of these funds.

## USING THIS ANNUAL REPORT

This discussion and analysis are intended to serve as an introduction to the Atlanta Community Schools basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

### Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private sector business.

The *statement of net assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

ATLANTA COMMUNITY SCHOOLS  
Montmorency County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2004

Both of the government-wide financial statements distinguish functions of the Atlanta Community School District that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the District include instruction, supporting services, food service and athletics. The District does not currently have any business-type activities.

The government-wide financial statements can be found in Exhibits A and B of this report.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of these funds of the District can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds. The District does not currently have any proprietary funds.

Governmental Funds

*Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on balances of *spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenue, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures and changes in fund balances for the general fund and 1999 debt retirement fund which are considered to be major funds. Data from the other three governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* presented in Exhibits J and K of this report.

The District adopts annual appropriated budgets for its governmental funds. A budgetary comparison statement has been provided for the general fund and combined special revenue funds to demonstrate compliance with budgets.

The basic governmental fund financial statements can be found in Exhibits C and E of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statement can be found on Exhibit G of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found in Exhibit H of this report.

ATLANTA COMMUNITY SCHOOLS  
Montmorency County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2004

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning budgetary information for the District's major funds. Required supplementary information can be found in Exhibit I of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found in Exhibits J and K of this report.

Our auditors have provided assurance in their independent auditors' report, located immediately preceding this Management's Discussion and Analysis, that the Basic Financial Statements are fairly stated. Varying degrees of assurance are being provided by the auditor regarding the Required Supplementary Information and the Additional Information identified above. A user of this report should read the independent auditors' report carefully to ascertain the level of assurance being provided for each of the parts in the Financial Section.

GOVERNMENT -WIDE FINANCIAL ANALYSIS

The District's net assets were \$3,335,831 at June 30, 2004. Of this amount, a deficit of \$219,204 was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the District's ability to use those net assets for day-to-day operations. Our analysis below focuses on the net assets (Table 1) and the change in net assets (Table 2) of the District's governmental activities.

TABLE 1  
NET ASSETS  
JUNE 30  
(IN THOUSANDS)

	<u>Governmental Activities</u>
Current Assets	\$ 1,545,150
Noncurrent Assets	<u>9,532,186</u>
Total Assets	<u>11,077,336</u>
Current Liabilities	1,229,845
Noncurrent Liabilities	<u>6,511,660</u>
Total Liabilities	<u>7,741,505</u>
<u>Net Assets</u>	
Invested in Capital Assets – Net of Debt	3,343,909
Restricted	211,126
Unrestricted	<u>(219,204)</u>
Total Net Assets	<u>\$ 3,335,831</u>

The deficit of \$219,000 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations.



ATLANTA COMMUNITY SCHOOLS  
Montmorency County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2004

TABLE 2  
CHANGES IN NET ASSETS  
YEAR ENDED JUNE 30  
(IN MILLIONS)

	<u>Governmental Activities</u>
Revenues:	
Program Revenues:	
Charges for Services	\$ 103,739
Operating Grants and Contributions	2,521,330
General Revenues:	
Current Property Taxes	2,201,708
Investment Earnings	6,980
Miscellaneous	<u>67,784</u>
Total Revenues	<u>4,901,541</u>
Functions/Program Expenses:	
Instruction	2,634,930
Supporting Services	1,373,254
Food Services	170,412
Athletics	82,669
Interest on Long-Term Debt	434,377
Other Expenses	2,150
Unallocated Depreciation	<u>311,856</u>
Total Functions/Program Expenses	<u>5,009,648</u>
Decrease in Net Assets	<u>\$ (108,107)</u>

Governmental activities decreased the District's net assets by \$108,000.

As reported in our Statement of Activities in Exhibit B, the cost of all of our governmental activities this year was \$5,009,648. However, the amount that our taxpayers ultimately financed for these activities through District taxes was only \$2.2 million because some of the cost was paid by those who benefited from the programs (\$104,000), by other governments and organizations who subsidized certain programs with grants and contributions (\$2.5 million), and by miscellaneous sources (\$74,000).

MAJOR GOVERNMENTAL FUNDS BUDGETING AND OPERATING HIGHLIGHTS

The District's budgets are prepared according to Michigan law. The most significant budgeted fund is the General Fund.

During the fiscal year ended June 30, 2004, the District amended the budgets of this major governmental fund a couple of times, none significantly.

ATLANTA COMMUNITY SCHOOLS  
Montmorency County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2004

General Fund

The general fund actual revenue was \$4,042,087. That amount is above the original budget estimates of \$3,778,348 and below the final amended budget of \$4,054,644. The variance between the actual revenues and the final budget was the result of decreases in state and local grants mid-year as a result of grantor budget cuts.

The actual expenditures of the general fund were \$4,044,551, which is above the original budget estimates of \$3,763,654 and final amended budget of \$3,925,008. The variance between the actual expenditures, the original budget, and final budget was due to a retroactive hospitalization bill of approximately \$52,000 related to the 2001/2002 and 2002/2003 school years, a state unemployment bill of \$39,000, and two employees absent for medical leave in which replacement staff had to be hired. These items were not included in the original budget as they were unknown at the time it was prepared.

The General Fund had total revenues of \$4,042,087 and total expenditures of \$4,044,551 with an ending fund balance of \$51,727.

TOTAL REVENUES

The total revenues of the District were \$4,901,541. Of the total revenues, 100% were generated by governmental activities.

Program specific revenues in the form of charges for services, grants and contributions accounted for \$2,625,069 or 54% of total revenues of \$4,901,541.

GOVERNMENTAL FUND EXPENDITURES

Total governmental fund expenditures amounted to \$5,016,271. The governmental funds had a net loss in fund balance of \$48,052. The ending fund balance for all governmental funds was \$262,853 which represents 5% of current year expenditures. This fund balance will be used for 2004/2005 operations.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2004, the District had \$12,720,873 invested in land and buildings, furniture and equipment, and vehicles and buses. Of this amount, \$3,188,687 in depreciation has been taken over the years. We currently have a net book value of \$9,532,186. Total additions for the year were \$7,981. Major additions included VCR's for teacher TV stations.

Long-Term Debt

At June 30, 2004, the District had \$6.1 million in bonds outstanding of which 100% represent's general obligation bonds of the District. The District also had a short-term tax anticipation note of \$750,000, \$47,810 outstanding on a USDA loan, and \$90,090 outstanding on computer capital leases.

State statutes limit the amount of general obligation debt that a School District may issue. The current debt limitation for the District is significantly greater than the outstanding debt of the District.

Additional information on the District's long-term debt can be found in Note 9 on page 27 of this report.

ATLANTA COMMUNITY SCHOOLS  
Montmorency County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2004

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The economy in the State of Michigan is slowing significantly. The current State of Michigan revenue estimates project 2004-2005 funding to be equal to 2003-2004 funding. These factors were considered in preparing the Atlanta Community Schools' budgets for the 2004-2005 fiscal year.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Atlanta Community Schools' finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Superinten dent  
Atlanta Community Schools  
10500 County Road 489  
P.O. Box 619  
Atlanta , MI 48709  
Office Telephone (989) 785-4877

ATLANTA COMMUNITY SCHOOLS  
Montmorency County, Michigan

STATEMENT OF NET ASSETS  
June 30, 2004

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and cash equivalents (Note 3)	\$ 1,077,377
Receivables:	
Accounts	2,730
State of Michigan (Note 4)	351,461
Due from outside agencies	4,836
Inventory: (Note 1)	
Supplies	1,744
Bond issuance costs - net (Note 1)	107,002
Capital assets - net (Note 6)	<u>9,532,186</u>
 Total Assets	 <u>11,077,336</u>
<u>Liabilities</u>	
Accounts payable	35,844
Salaries payable	158,508
Payroll withholdings payable	187,615
Interest payable	66,574
State aid anticipation note payable (Note 7)	750,000
Deferred revenue (Note 8)	31,304
Long-term liabilities:	
Due within one year (Note 9)	505,151
Due in more than one year	<u>6,006,509</u>
 Total Liabilities	 <u>7,741,505</u>
<u>Net Assets</u>	
Invested in capital assets, net of related debt	3,343,909
Restricted for:	
Athletics	6,824
Debt Retirement	204,302
Unrestricted	<u>(219,204)</u>
 Total Net Assets	 <u>\$ 3,335,831</u>

The accompanying notes to financial statements are an integral part of this statement.

ATLANTA COMMUNITY SCHOOLS  
Montmorency County, Michigan

STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2004

		<u>Program Revenues</u>		<u>Net (Expenses)</u> <u>Revenue and</u> <u>Change in</u> <u>Net Assets</u>
	<u>Expenses</u>	<u>Charges for</u> <u>Services</u>	<u>Operating</u> <u>Grants and</u> <u>Contributions</u>	<u>Government</u> <u>Type</u> <u>Activities</u>
Instruction	\$ 2,634,930	\$ 8,255	\$ 1,794,758	\$ (831,917)
Supporting services	1,373,254	23,371	599,683	(750,200)
Food services	170,412	38,545	116,628	(15,239)
Athletics	82,669	33,568	10,261	(38,840)
Interest on long-term debt	434,377	0	0	(434,377)
Other expenses	2,150	0	0	(2,150)
Unallocated depreciation	<u>311,856</u>	<u>0</u>	<u>0</u>	<u>(311,856)</u>
Total	<u>\$ 5,009,648</u>	<u>\$ 103,739</u>	<u>\$ 2,521,330</u>	<u>(2,384,579)</u>
General purpose revenue:				
Current property taxes				2,201,708
Investment earnings				6,980
Gain on sale of capital assets				1,750
Miscellaneous				<u>66,034</u>
Total general purpose revenue				<u>2,276,472</u>
Change in net assets				(108,107)
Net assets - beginning				<u>3,443,938</u>
Net assets - ending				<u>\$ 3,335,831</u>

The accompanying notes to financial statements are an integral part of this statement.

ATLANTA COMMUNITY SCHOOLS  
Montmorency County, Michigan

BALANCE SHEET  
 GOVERNMENTAL FUNDS  
June 30, 2004

	<u>General</u>	<u>1999 Debt Retirement Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>				
Cash and cash equivalents (Note 3)	\$ 865,914	\$ 204,302	\$ 7,161	\$ 1,077,377
Receivables:				
Accounts	2,730	0	0	2,730
State of Michigan (Note 4)	351,461	0	0	351,461
Due from other funds (Note 5)	6,435	0	0	6,435
Inventory (Note 1)	<u>0</u>	<u>0</u>	<u>1,744</u>	<u>1,744</u>
Total Assets	<u>\$ 1,226,540</u>	<u>\$ 204,302</u>	<u>\$ 8,905</u>	<u>\$ 1,439,747</u>
<u>LIABILITIES AND FUND EQUITY</u>				
<u>Liabilities</u>				
Accounts payable	\$ 35,362	\$ 0	\$ 482	\$ 35,844
Salaries payable	158,508	0	0	158,508
Employee benefits payable	187,615	0	0	187,615
Interest payable	12,024	0	0	12,024
Due to other funds (Note 5)	0	0	1,599	1,599
Tax anticipation note payable (Note 7)	750,000	0	0	750,000
Deferred revenue (Note 8)	<u>31,304</u>	<u>0</u>	<u>0</u>	<u>31,304</u>
Total liabilities	<u>1,174,813</u>	<u>0</u>	<u>2,081</u>	<u>1,176,894</u>
<u>Fund Equity</u>				
Fund balances:				
Reserved:				
Debt Retirement Fund (Note 17)	0	204,302	0	204,302
Unreserved, reported in:				
General fund	51,727	0	0	51,727
Special revenue funds	<u>0</u>	<u>0</u>	<u>6,824</u>	<u>6,824</u>
Total fund equity	<u>51,727</u>	<u>204,302</u>	<u>6,824</u>	<u>262,853</u>
Total Liabilities and Fund Equity	<u>\$ 1,226,540</u>	<u>\$ 204,302</u>	<u>\$ 8,905</u>	<u>\$ 1,439,747</u>

The accompanying notes to financial statements are an integral part of this statement.

ATLANTA COMMUNITY SCHOOLS  
Montmorency County, Michigan

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
 NET ASSETS OF GOVERNMENTAL ACTIVITIES  
June 30, 2004

Total governmental fund balances:	\$ 262,853
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The capital assets at year end consist of:	
Capital asset cost	\$ 12,720,873
Capital asset accumulated depreciation	<u>(3,188,687)</u>
	9,532,186
Accrued interest on long-term debt	(54,550)
Long-term liabilities, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of:	
Bonds payable (net of unamortized discount)	(5,995,827)
Loans payable	(47,810)
Capital leases payable	(90,090)
Compensated absences payable	(47,807)
Retirement incentive liability	<u>(223,124)</u>
Total long-term liabilities	<u>(6,404,658)</u>
Total net assets - governmental activities	<u>\$ 3,335,831</u>

The accompanying notes to financial statements are an integral part of this statement.

ATLANTA COMMUNITY SCHOOLS  
Montmorency County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES  
 GOVERNMENTAL FUNDS  
For the year ended June 30, 2004

	General Fund	1999 Debt Retirement Fund	Other Governmental Funds	Total Governmental Funds
<u>Revenue</u>				
Local sources:				
Current property taxes	\$ 1,520,223	\$ 681,485	\$ 0	\$ 2,201,708
Lunch sales	0	0	38,545	38,545
Gate receipts	0	0	17,999	17,999
Driver's education - tuition	8,255	0	0	8,255
Interest on investments	5,244	1,652	84	6,980
Donations	10,261	0	0	10,261
Other	139,807	0	15,569	155,376
State sources	1,979,513	0	6,649	1,986,162
Federal sources	364,526	0	109,979	474,505
Total revenue	<u>4,027,829</u>	<u>683,137</u>	<u>188,825</u>	<u>4,899,791</u>
<u>Expenditures</u>				
Current:				
Instruction	2,566,541	0	0	2,566,541
Support services	1,345,831	0	0	1,345,831
Food services	0	0	170,412	170,412
Athletics	0	0	82,669	82,669
Debt service:				
Principal retirement	41,316	360,000	0	401,316
Interest and fiscal charges	36,693	336,275	0	372,968
Capital outlay	0	0	7,981	7,981
Other	0	0	1,875	1,875
Total expenditures	<u>3,990,381</u>	<u>696,275</u>	<u>262,937</u>	<u>4,949,593</u>
Excess of revenue over (under) expenditures	<u>37,448</u>	<u>(13,138)</u>	<u>(74,112)</u>	<u>(49,802)</u>
<u>Other Financing Sources (Uses)</u>				
Sale of fixed assets	1,750	0	0	1,750
Operating transfers in	12,508	0	54,170	66,678
Operating transfers out	(54,170)	0	(12,508)	(66,678)
Total other financing sources (uses)	<u>(39,912)</u>	<u>0</u>	<u>41,662</u>	<u>1,750</u>
Excess of revenue and other sources over (under) expenditures and other uses	<u>(2,464)</u>	<u>(13,138)</u>	<u>(32,450)</u>	<u>(48,052)</u>
Fund balances - beginning of year, as restated (Note 2)	<u>54,191</u>	<u>217,440</u>	<u>39,274</u>	<u>310,905</u>
Fund balances - end of year	<u>\$ 51,727</u>	<u>\$ 204,302</u>	<u>\$ 6,824</u>	<u>\$ 262,853</u>

The accompanying notes to financial statements are an integral part of this statement.



ATLANTA COMMUNITY SCHOOLS  
Montmorency County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND  
 CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2004

Total net change in fund balances - governmental funds	\$	(48,052)
--	----	----------

Amounts reported for governmental activities in the statement of activities  
 are different because:

Governmental funds report capital outlays as expenditures. However, in the  
 statement of activities, the cost of those assets is allocated over their  
 estimated useful lives as depreciation expense.

Current year depreciation expense	\$ (311,856)	
Capital outlays reported in the governmental funds	<u>7,981</u>	
Net difference		(303,875)

Repayment of bond and loan principal is an expenditure in the governmental  
 funds, but the repayment reduces long-term liabilities in the statement of net  
 assets. This is the amount of repayments reported as expenditures in  
 the governmental funds.

360,695

Lease payments on a capital lease are expenditures in the governmental funds,  
 but the payment reduces long-term liabilities in the statement of net  
 assets. This is the principal repayments reported as expenditures in  
 the governmental funds.

40,621

Accrued interest on long-term liabilities June 30, 2004

(54,550)

Amortization of deferred bond issuance costs

(7,134)

Net change in accrued compensated absences:

Accrued compensated absences June 30, 2003	83,119	
Accrued compensated absences June 30, 2004	<u>(47,807)</u>	
		35,312

Net change in accrued early retirement incentives:

Early retirement incentives June 30, 2003	92,000	
Early retirement incentives June 30, 2004	<u>(223,124)</u>	
		<u>(131,124)</u>

Change in net assets of governmental activities

\$ (108,107)

The accompanying notes to financial statements are an integral part of this statement.

ATLANTA COMMUNITY SCHOOLS  
Montmorency County, MichiganSTATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
FIDUCIARY FUND  
June 30, 2004

	<u>Student Activity</u>
<u>ASSETS</u>	
Cash and cash equivalents	<u>\$ 92,575</u>
<u>LIABILITIES</u>	
<u>Liabilities</u>	
Due to general fund	\$ 4,836
Due to student groups	<u>87,739</u>
Total Liabilities	<u>\$ 92,575</u>

The accompanying notes to financial statements are an integral part of this statement.

ATLANTA COMMUNITY SCHOOLS  
Montmorency County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Atlanta Community Schools conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governments. The Atlanta Community Schools (School District) is considered to be a local government unit. The following is a summary of the significant accounting policies:

A. Reporting Entity

The School District operates under an elected School Board (seven members) and provides services to students in grades K-12. The board is responsible for adopting and amending budgets and for administering the school programs in accordance with governing laws. The accompanying basic financial statements have been prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District's reporting entity applies all relevant GASB pronouncements for determining the various governmental organizations to be included in the reporting entity. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. Atlanta Community Schools Board of Education (Board) is the primary government which has oversight responsibility and control over all activities related to public school education in the area served by Atlanta Community Schools. The Board receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities. As such, the Board is not included in any other governmental "reporting entity" as defined in GASB pronouncements since the Board members are a publicly elected governing body that has separate legal standing and is fiscally independent of other governmental entities.

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain School District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the School District are grouped into the categories governmental and fiduciary.

Governmental Funds

Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the School District's major governmental funds:

General Fund - The General Fund is the general operating fund of the School District. It is used to account for all financial resources except those required to be accounted for in another fund. Expenditures are classified in accordance with the Accounting Manual issued by the Michigan Department of Education (Bulletin 1022).

ATLANTA COMMUNITY SCHOOLS  
Montmorency County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Fund Accounting (Continued)

1999 Debt Retirement Fund - The 1999 Debt Retirement Fund is used to account for the accumulated resources for, and the payment of, general long-term principal, interest and related costs.

The other governmental funds of the School District account for grants and other resources whose use is restricted for a particular purpose; and the acquisition or construction of major capital facilities.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The School District's fiduciary funds consist of agency funds which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds are used to account for amounts held for others in an agency capacity (primarily student activities and scholarships).

C. Basis of Presentation

Government-wide Financial Statements:

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities. The School District does not currently have any business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

Net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other purposes result from special revenue funds and the restrictions on their net asset use. Restricted assets are used first to fund appropriations before unrestricted assets are used.

ATLANTA COMMUNITY SCHOOLS  
Montmorency County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation (Continued)

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Fund Financial Statements:

Fund financial statements report detailed information about the School District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenue, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions:

Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available, means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within 60 days of the fiscal year-end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available in advance, interest, tuition, grants, student fees and rentals.

ATLANTA COMMUNITY SCHOOLS  
Montmorency County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Accounting (Continued)

Deferred Revenue:

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures:

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

E. Cash and Cash Equivalents

For presentation on the financial statements, investments in the cash management pools and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

F. Due From State of Michigan

This represents amounts receivable from the State of Michigan for federal and state reimbursable programs.

G. Inventory – Supplies

Inventory is stated at cost and expensed when used. Inventory in governmental funds consists of expendable supplies held for consumption.

H. Bond Issuance Costs

On the government-wide financial statements, bond issuance costs are deferred and amortized over the term of the bonds using the straight-line method since the results are not significantly different from the effective interest method. In the governmental funds, these costs are reported as expenditures when the related liability is incurred.

ATLANTA COMMUNITY SCHOOLS  
Montmorency County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Capital Assets

General capital assets are those assets not specifically related to activities reported in proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) using a \$5,000 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Descriptions</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and Improvements	20 - 50 years
Furniture, Fixtures and Equipment	5 - 20 years
Vehicles and Buses	8 years

J. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "due from/to other funds". These amounts are eliminated in the governmental columns of the statement of net assets.

K. Compensated Absences

The School District reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Sick leave benefits are accrued as a liability using the vesting method. An accrual for earned sick leave is made based on accumulated sick leave and wage rates at year-end, taking into consideration limits specified in the District's termination policy.

The entire compensated absences liability is reported on the government-wide financial statements.

On governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "accrued compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported.

ATLANTA COMMUNITY SCHOOLS  
Montmorency County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported as a liability in the fund financial statements at the time they are incurred, to the extent that they will be paid from current, expendable, financial resources. In general, payments made within 60 days after year end are considered to have been made with current available financial resources. However, bonds and other long-term obligations, compensated absences, claims and judgments, contractually required pension contributions and special termination benefits that will be paid from governmental funds are recognized as a liability in the fund financial statements when they become due for payment.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

N. Property Taxes

The School District levies its property taxes on December 1 and various municipalities collect its property taxes and remit them to the District through February. The delinquent real property taxes of the District are purchased by the County, and delinquent personal property taxes continue to be collected by the municipalities and recorded as revenue as they are collected. The County sells tax notes, the proceeds of which have been used to pay the District for these delinquent real property taxes. These delinquent real property taxes have been recorded as revenue in the current year.

O. Foundation Revenue

The State of Michigan has adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2004, the foundation allowance was based on the average of pupil membership counts taken in February and September of 2003.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through eleven payments from October, 2003 - August, 2004. The local revenue is recognized as outlined in Note 1 Accounting for Property Taxes.



ATLANTA COMMUNITY SCHOOLS  
Montmorency County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. State Categorical Revenue

The School District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received which are not expended by the close of the fiscal year are recorded as deferred revenue.

Q. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year ended June 30, 2004.

S. Economic Dependency

The School District received approximately 50% of their revenue from the Michigan Department of Education. Due to the significance of this revenue source to the School District, the School District is considered to be economically dependent.

T. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

U. Budgetary Policies and Data

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for General and Special Revenue Funds and an informational study for Capital Projects Funds of school districts prior to the expenditure of monies in a fiscal year in accordance with GAAP.

ATLANTA COMMUNITY SCHOOLS  
Montmorency County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

U. Budgetary Policies and Data (Continued)

Atlanta Community Schools follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The District's Superintendent submits to the Board a proposed budget prior to July 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Budgeted amounts are as originally adopted, or as amended by the Board throughout the year. Individual amendments were not material in relation to the original appropriations.
4. Appropriations lapse at year end and therefore cancel all encumbrances. These appropriations are re-established at the beginning of the following year.

V. Reclassifications

Certain amounts for the year ended June 30, 2003 have been reclassified to conform with the presentation for the year ended June 30, 2004.

NOTE 2 - CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE

Changes in Accounting Principles

For 2004, the School District has implemented Governmental Accounting Standards Board (GASB) Statement Number 33 "Accounting and Financial Reporting for Non-Exchange Transactions," as amended by Statement Number 36 "Recipient Reporting for Certain Shared Non-Exchange Revenue," which establishes standards for recording non-exchange transactions on the modified accrual and accrual basis of accounting; GASB Statement No. 34, "Basic Financial Statements -and Management's Discussion and Analysis- for State and Local Governments"; GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus"; GASB Statement No. 38, "Certain Financial Statement Note Disclosures"; and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements".

GASB Statement No. 34 creates new basic financial statements for reporting on the School District's financial activities. The financial statements include government-wide financial statements prepared on the accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type. The government-wide financial statements split the School District's programs between governmental activities and business-type activities. The School District does not currently have any business-type activities. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at June 30, 2003, caused by the conversion to the accrual basis of accounting.

GASB Statement No. 37 makes certain clarifications regarding escheat property and modifies several provisions of GASB Statement No. 34, including the Management's Discussion and Analysis. GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement disclosure requirements.

ATLANTA COMMUNITY SCHOOLS  
Montmorency County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2004

NOTE 2 - CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE (CONTINUED)

Changes in Accounting Principles (Continued)

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

Restatement of Fund Balance

The General Fund restatement for these changes in accounting principles is presented below:

Fund balance as originally stated at June 30, 2003	\$ 36,783
Reverse accrual of June 30, 2003 compensated absences paid through August 31, 2003	<u>17,408</u>
Fund balance as restated at June 30, 2003	<u>\$ 54,191</u>

NOTE 3 - DEPOSITS AND INVESTMENTS

At year-end, the School District's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash and Cash Equivalents	<u>\$ 1,077,377</u>	<u>\$ 92,575</u>	<u>\$ 1,169,952</u>

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>
Bank Deposits (checking and savings accounts, certificates of deposit)	\$ 962,852
Investments in Securities and Similar Vehicles	204,000
Petty Cash and Cash on Hand	<u>3,100</u>
Total	<u>\$ 1,169,952</u>

Deposits:

Deposits are carried at cost. Deposits of the School District are held at various banks in the name of the School District. At June 30, 2004, the carrying amounts of the School District's deposits were classified to risk as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	\$ 199,899	\$ 274,767
Uninsured – uncollateralized	<u>762,953</u>	<u>764,217</u>
Total primary government	<u>\$ 962,852</u>	<u>\$ 1,038,984</u>

ATLANTA COMMUNITY SCHOOLS  
Montmorency County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2004

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments:

The School District is authorized through Board resolution and by the State of Michigan Public Act 451 of 1976 as amended to invest in the following:

Bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above, and investment pools as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a school district.

Investments are categorized into these three categories of credit risk.

1. Insured or registered with securities held by the entity or by its agent in the entity's name.
2. Uninsured and unregistered investments for which the securities are held by the broker or broker's trust department or agent in the entity's name.
3. Uninsured and unregistered investments for which the securities are held by the broker or broker's trust department or agent but not in the entity's name.

At June 30, 2004, the School District's investments consisted of municipal investment pools, which are not required to be categorized with a carrying amount and market value of \$204,000.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2004, consist of taxes, accounts (fees), intergovernmental grants and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables (due from other governmental units) follows:

<u>Governmental Activities</u>	<u>Amount</u>
Receivables – State of Michigan:	
State Aid	\$ 348,497
Federal Grants	<u>2,964</u>
Total Receivables – State of Michigan	<u>\$ 351,461</u>

ATLANTA COMMUNITY SCHOOLS  
Montmorency County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2004

NOTE 5 - INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables for individual funds as of June 30, 2004 are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General Fund	\$ 1,594	Food Service Fund	\$ 1,594
General Fund	5	Athletic Fund	5
General Fund	<u>4,836</u>	Fiduciary Fund	<u>4,836</u>
Total	<u>\$ 6,435</u>		<u>\$ 6,435</u>

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2004</u>
<u>Governmental Activities</u>				
Land	\$ 1	\$ 0	\$ 0	\$ 1
Buildings and improvements	10,777,284	0	0	10,777,284
Furniture, fixtures and equipment	1,583,749	7,981	0	1,591,730
Vehicles and buses	<u>351,858</u>	<u>0</u>	<u>0</u>	<u>351,858</u>
Totals at historical cost	<u>12,712,892</u>	<u>7,981</u>	<u>0</u>	<u>12,720,873</u>
Less: Accumulated Depreciation				
Buildings and improvements	(2,052,937)	(177,106)	0	(2,230,043)
Furniture, fixtures and equipment	(521,355)	(108,901)	0	(630,256)
Vehicles and buses	<u>(302,539)</u>	<u>(25,849)</u>	<u>0</u>	<u>(328,388)</u>
Total accumulated depreciation	<u>(2,876,831)</u>	<u>(311,856)</u>	<u>0</u>	<u>(3,188,687)</u>
Governmental Activities Capital Assets-Net	<u>\$ 9,836,061</u>	<u>\$ (303,875)</u>	<u>\$ 0</u>	<u>\$ 9,532,186</u>

Depreciation expense was not allocated to governmental functions. It appears on the statement of activities as "unallocated".

NOTE 7 - SHORT-TERM DEBT

The District has various options for short-term financing including tax anticipation notes, state aid anticipation notes and lines of credit.

The following is a summary of state aid anticipation notes:

	<u>Balance July 1, 2003</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2004</u>
State Aid Anticipation Notes	<u>\$ 650,000</u>	<u>\$ 750,000</u>	<u>\$ 650,000</u>	<u>\$ 750,000</u>

ATLANTA COMMUNITY SCHOOLS  
Montmorency County, MichiganNOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2004NOTE 7 - SHORT-TERM DEBT (CONTINUED)

The State Aid Anticipation Note was acquired to help cover school operations for fiscal year 2004. The note is dated September 4, 2003, bears interest at 1.94% and was due for payment on August 23, 2004.

NOTE 8 - DEFERRED REVENUE

Governmental funds defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unearned</u>
General Fund:	
At-Risk	\$ 18,642
Michigan School Readiness	<u>12,662</u>
Total	<u>\$ 31,304</u>

NOTE 9 - LONG-TERM LIABILITIES

<u>A. Loan Payable</u>	<u>Date of Contract</u>	<u>Principal Due</u>	<u>Interest on Loan</u>	<u>Total Obligation</u>
USDA Loan:				
The loan dated November 16, 2001 bears interest at 5.42% is due annually each September 30 through 2007	2001	<u>\$ 47,810</u>	<u>\$ 6,821</u>	<u>\$ 54,631</u>
<u>B. Bonds Payable</u>				
Durant School Improvement Bonds:				
The bonds dated 1999 which bear interest from 4.76% to 8% are due serially each May 15 through 2013	1999	\$ 32,829	\$ 9,458	\$ 42,287
1999 School Building and Site Bonds:				
The bonds dated November 1, 1999 which bear interest from 5.2% to 5.25% are due serially each May 1 through 2019	1999	<u>6,070,000</u>	<u>2,567,900</u>	<u>8,637,900</u>
Total Bonds Payables		<u>\$ 6,102,829</u>	<u>\$ 2,577,358</u>	<u>\$ 8,680,187</u>

The annual State of Michigan appropriation, through the State Aid payments, is the only revenue source for making the annual debt service payment on the school improvement bonds. If the legislature fails to appropriate the funds, the District is under no obligation for payment.

ATLANTA COMMUNITY SCHOOLS  
Montmorency County, MichiganNOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2004NOTE 9 - LONG-TERM LIABILITIES (CONTINUED)

<u>C. Capital Leases</u>	<u>Date of Contract</u>	<u>Principal Due</u>	<u>Interest on Loan</u>	<u>Total Obligation</u>
Computers of \$180,624 were purchased under several capital leases, and have been included as capital assets of the District. Below is the detail of the individual capital leases.				
<u>Dell Computer Leases</u>				
Library Computer Lease:				
The lease for the library computers dated October 22, 2001 is due in annual payments of \$7,936 over a period of four years	2001	\$ 13,635	\$ 2,237	\$ 15,872
Adult Education Computer Lease:				
The lease for the adult education computers dated July 30, 2002 is due in monthly payments of \$367 over a period of 48 months	2002	\$ 8,037	\$ 788	\$ 8,825
High School Rooms Computer Lease:				
The lease for the high school rooms computers dated August 1, 2002 is due in monthly payments of \$1,593 over a period of 48 months	2002	34,819	3,414	38,233
Title I Computer Lease:				
The lease for the Title I computers dated August 1, 2002 is due in monthly payments of \$328 over a period of 48 months	2002	7,186	704	7,890
High School Teachers Computer Lease:				
The lease for the high school teachers computers dated November 1, 2002 is due in annual payments of \$5,817 over a period of four years	2002	10,595	1,039	11,634
Elementary Teachers Computer Lease:				
The lease for the elementary teachers computers dated November 19, 2002 is due in annual payments of \$6,781 over a period of four years	2002	12,351	1,211	13,562

ATLANTA COMMUNITY SCHOOLS  
Montmorency County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2004

NOTE 9 - LONG-TERM LIABILITIES (CONTINUED)

C. <u>Capital Leases</u> (Continued)	<u>Date of Contract</u>	<u>Principal Due</u>	<u>Interest on Lease</u>	<u>Total Obligation</u>
<u>Dell Computer Leases</u> (Continued)				
Title I Computer Lease:				
The lease for the Title I computers dated November 1, 2002 is due in annual payments of \$289 over a period of four years	2002	526	52	578
Early Childhood Computer Lease:				
The lease for the early childhood computers dated November 1, 2002 is due in annual payments of \$289 over a period of four years	2002	\$ 526	\$ 52	\$ 578
Adult Education Computer Lease:				
The lease for the adult education computers dated November 1, 2002 is due in annual payments of \$1,326 over a period of four years	2002	<u>2,415</u>	<u>237</u>	<u>2,652</u>
Total Capital Leases		<u>\$ 90,090</u>	<u>\$ 9,734</u>	<u>\$ 99,824</u>

The annual principal and interest requirements for long-term debt for the years after June 30, 2004 are as follows:

	<u>Government Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 429,500	\$ 326,350	\$ 755,850
2006	450,691	304,268	754,959
2007	424,143	284,042	708,185
2008	420,669	258,297	678,966
2009	407,860	236,389	644,249
2010-2014	2,057,866	861,692	2,919,558
2015-2019	<u>2,050,000</u>	<u>322,875</u>	<u>2,372,875</u>
Total	<u>\$ 6,240,729</u>	<u>\$ 2,593,913</u>	<u>\$ 8,834,642</u>



ATLANTA COMMUNITY SCHOOLS  
Montmorency County, MichiganNOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2004NOTE 9 - LONG-TERM LIABILITIES (CONTINUED)

The following is a summary of other loans and liabilities:

D. Compensated Absences

The School District has contracted obligations to compensate eligible employees for absences from work for sick leave. Eligible employees are allowed to accumulate sick leave and the amounts so accumulated are payable at retirement or resignation subject to contractual limitations based on years of service. Union personnel may accumulate up to 180 days of sick leave of which \$20 per day is payable upon retirement. Non-union personnel also may accumulate up to 180 days of sick leave with the rate of pay per day varying depending on their contract. Compensated absences are recorded using the vesting method in accordance with Governmental Accounting Standards Board Statement 16. The amount of accumulated sick and vacation pay liability for Atlanta Community Schools was \$47,807 at June 30, 2004, of which \$388 was the estimated current portion.

E. Early Retirement Incentive

The School District offers a Voluntary Severance Retirement Incentive Plan to certain teachers based on years of service and current wage scale payable over a five year period. The amount of retirement incentive liability for Atlanta Community Schools at June 30, 2004 was \$223,124 of which \$75,264 was the estimated current portion.

F. Changes in Long-Term Liabilities

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004	Amount Due In One Year
<u>Governmental Activities</u>					
Loan payable	\$ 48,505	\$ 0	\$ 695	\$ 47,810	\$ 11,001
Bonds payable	6,462,829	0	360,000	6,102,829	375,000
Capital leases	130,711	0	40,621	90,090	43,499
Compensated absences	83,119	0	35,312*	47,807	387
Early retirement incentive	<u>92,000</u>	<u>172,219</u>	<u>41,095</u>	<u>223,124</u>	<u>75,264</u>
Total long-term liabilities	<u>\$ 6,817,164</u>	<u>\$ 172,219</u>	<u>\$ 477,723</u>	<u>\$ 6,511,660</u>	<u>\$ 505,151</u>

The payment dates of compensated absences payable are undeterminable.

The interest expenditures on long-term obligations for the year were \$434,377.

\*Represents net of additions and retirements for the year.

ATLANTA COMMUNITY SCHOOLS  
Montmorency County, MichiganNOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2004NOTE 10 - INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2004 consisted of the following:

<u>Fund</u>	<u>Transfer In</u>	<u>Fund</u>	<u>Transfer Out</u>
General Fund	\$ 12,508	Food Service Fund	\$ 12,508
Athletic Fund	<u>54,170</u>	General Fund	<u>54,170</u>
Total	<u>\$ 66,678</u>	Total	<u>\$ 66,678</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, move receipts restricted to debt service from the funds collecting the receipts to the fund servicing the debt as debt payments become due, and use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 11 - EXCESS OF EXPENDITURES OVER APPROPRIATION IN BUDGETARY FUNDS

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the School District's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budget of the School District for the general fund was adopted at the functional level, and the approved budget for the special revenue funds was adopted at the activity level.

During the year ended June 30, 2004, the School District incurred expenditures in certain budgetary funds which were in excess of the amount appropriated as follows:

<u>Fund/Function</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General/Instruction	\$ 2,535,176	\$ 2,566,541	\$ 31,365
General/Support Services	\$ 1,275,670	\$ 1,345,831	\$ 70,161
General/Interest and Fiscal Charges	\$ 36,562	\$ 36,693	\$ 131
General/Operating Transfers Out	\$ 35,835	\$ 54,170	\$ 18,335
Special Revenue/Athletics	\$ 79,893	\$ 82,669	\$ 2,776
Special Revenue/Food Service/Operating Transfers Out	\$ 0	\$ 12,508	\$ 12,508

ATLANTA COMMUNITY SCHOOLS  
Montmorency County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2004

NOTE 12 - RETIREMENT PLANS

Defined Benefit Plan

The School District contributes to the Michigan Public School Employee's Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Michigan Public School Employee's Retirement System. MPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Public Act 300 of 1980 of the State of Michigan, as amended, assigns the authority to establish and amend benefit provisions to the MPERS Board. MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. The report may be obtained by writing to MPERS, 7150 Harris Drive, P.O. Box 30673, Lansing, Michigan 48909-8103.

Funding Policy

Effective January 1, 1987, employees who were MPERS members could have elected to contribute on a tax deferred basis to a Member Investment Plan (MIP). MIP members enrolled prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Employees first hired January 1, 1990 or later will automatically be included in the MIP and will contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. For a limited period ending January 1, 1993, an active basic plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment.

During the plan fiscal year 2003, employer contributions were 12.99% of covered compensation as school districts were responsible for the entire pension and health insurance contribution. The contribution requirements of plan members and Atlanta Community Schools are established and may be amended by the MPERS Board. The School District's contributions to MPERS for the years ending June 30, 2004, 2003 and 2002 were \$260,639, \$363,484 and \$325,695, respectively, equal to the required contributions for each year.

The MPERS also provides for death and disability benefits which are established by state statute. Under the MPERS Act, all retirees have the option of continuing health, dental and vision insurance coverage. All health care benefits under the MPERS are on a self-insured pay-as-you-go basis. Retirees electing these coverages pay a portion of the premium for this coverage from their monthly pension benefit.

Deferred Compensation Plans

The District offers its employees participation in the Tax-Deferred Payments (TDP) program through MPERS. The program, available to all full-time employees who are members of the retirement system, permits them to defer a portion of their salary until future years for the purchase of additional years of service credit. Employees are eligible to voluntarily participate from the date of employment, however once an employee begins payments in the program they must continue until completion of the purchase of the service credit or termination of employment from Atlanta Community Schools. Payments into the program are vested once 10 years of service credit have been earned through the MPERS. Employee contributions to the TDP program totaled \$35,262 for the year ended June 30, 2004.

ATLANTA COMMUNITY SCHOOLS  
Montmorency County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2004

NOTE 12 - RETIREMENT PLANS (CONTINUED)

The District also offers its employees a deferred compensation plan created in accordance with Internal Revenue Service Code Section 403(b). The plan, available to all full-time employees, permits them to defer a portion of their salary until future years. Employees are eligible to voluntarily participate from the date of employment and are vested immediately upon participation. Employee contributions to the Section 403(b) plan totaled \$36,253 for the year ended June 30, 2004. The assets of the plan are administered and held by various approved third party financial institutions.

NOTE 13 - UNEMPLOYMENT COMPENSATION

The School District is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the School District must reimburse the Employment Agency for all benefits charged against the School District. As of June 30, 2004, \$39,552 was due and accrued as a liability.

NOTE 14 - BONDED CONSTRUCTION FUNDS

The 1999 Capital Project Fund includes capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the School District has complied with the applicable provisions of §1351a of the Revised School Code.

NOTE 15 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The School District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The School District pays annual premiums to each pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. Each of the pools maintain reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The School District has not been informed of any special assessments being required.

The School District continues to carry commercial insurance for risks of loss, including employee health and accident insurance. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

NOTE 16 - GOVERNMENTAL REGULATION

Substantially all of the School District's facilities are subject to federal, state and local provisions regulating the discharge of materials into the environment. Compliance with these provisions has not had, nor does the School District expect such compliance to have, any material effect upon the capital expenditures, net revenue in excess of expenditures or financial condition of the School District. Management believes that its current practices and procedures for the control and disposition of such wastes comply with applicable federal and state requirements.

ATLANTA COMMUNITY SCHOOLS  
Montmorency County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2004

NOTE 17 - FUND BALANCE RESERVATIONS

The amounts of the various fund balances reserved or designated at June 30, are as follows:

	<u>2004</u>
Debt Retirement:	
Reserved for Debt Service	<u>\$ 204,302</u>

NOTE 18 - GOING CONCERN

The General Fund experienced a loss of \$2,464 during the year ended June 30, 2004 leaving an available fund balance of \$51,727. This is approximately 5 days of budgeted expenditures for the fiscal year ended June 30, 2005. The School District has cut staffing costs through an early retirement incentive plan and staff lay-offs at the end of the June 30, 2004 school year. The District also implemented a summer tax collection effective in July 2004 for ½ the annual levy which will allow less borrowing of tax anticipation notes to fund operations. With these implemented changes, the District has adopted a balanced budget for the 2004-2005 school year.

REQUIRED SUPPLEMENTARY INFORMATION

ATLANTA COMMUNITY SCHOOLS  
Montmorency County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - BUDGET AND ACTUAL  
 GENERAL FUND  
For the Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Local sources	\$ 1,592,087	\$ 1,654,450	\$ 1,683,790	\$ 29,340
State sources	1,787,472	2,021,895	1,979,513	(42,382)
Federal sources	320,432	373,299	364,526	(8,773)
Total revenue	<u>3,699,991</u>	<u>4,049,644</u>	<u>4,027,829</u>	<u>(21,815)</u>
<u>Expenditures</u>				
Current:				
Instruction	2,462,952	2,535,176	2,566,541	(31,365)
Support services	1,164,023	1,275,670	1,345,831	(70,161)
Other services	5,000	0	0	0
Debt service:				
Principal retirement	50,950	41,765	41,316	449
Interest and fiscal charges	18,000	36,562	36,693	(131)
Capital outlay	4,336	0	0	0
Total expenditures	<u>3,705,261</u>	<u>3,889,173</u>	<u>3,990,381</u>	<u>(101,208)</u>
Excess of revenue over (under) expenditures	<u>(5,270)</u>	<u>160,471</u>	<u>37,448</u>	<u>(123,023)</u>
<u>Other Financing Sources (Uses)</u>				
Sale of fixed assets	0	0	1,750	1,750
Operating transfers in	78,357	5,000	12,508	7,508
Operating transfers out	(58,393)	(35,835)	(54,170)	(18,335)
Total other financing sources (uses)	<u>19,964</u>	<u>(30,835)</u>	<u>(39,912)</u>	<u>(9,077)</u>
Excess of revenue and other sources over (under) expenditures and other uses	14,694	129,636	(2,464)	(132,100)
Fund balances - beginning of year, as restated (Note 2)	<u>54,191</u>	<u>54,191</u>	<u>54,191</u>	<u>0</u>
Fund balances - end of year	<u>\$ 68,885</u>	<u>\$ 183,827</u>	<u>\$ 51,727</u>	<u>\$ (132,100)</u>

## OTHER INFORMATION



ATLANTA COMMUNITY SCHOOLS  
Montmorency County, Michigan

COMBINING BALANCE SHEET  
 OTHER GOVERNMENTAL FUNDS  
June 30, 2004

	Food Service Fund	Athletic Fund	1999 Capital Project Fund	Total Other Governmental Funds
<u>ASSETS</u>				
Cash and cash equivalents	\$ 332	\$ 6,829	\$ 0	\$ 7,161
Inventory:				
Supplies	<u>1,744</u>	<u>0</u>	<u>0</u>	<u>1,744</u>
Total Assets	<u>\$ 2,076</u>	<u>\$ 6,829</u>	<u>\$ 0</u>	<u>\$ 8,905</u>
<u>LIABILITIES AND FUND EQUITY</u>				
<u>Liabilities</u>				
Accounts payable	\$ 482	\$ 0	\$ 0	\$ 482
Due to other funds	<u>1,594</u>	<u>5</u>	<u>0</u>	<u>1,599</u>
Total liabilities	<u>2,076</u>	<u>5</u>	<u>0</u>	<u>2,081</u>
<u>Fund Equity</u>				
Fund balances:				
Unreserved reported in:				
Special revenue funds	<u>0</u>	<u>6,824</u>	<u>0</u>	<u>6,824</u>
Total fund equity	<u>0</u>	<u>6,824</u>	<u>0</u>	<u>6,824</u>
Total Liabilities and Fund Equity	<u>\$ 2,076</u>	<u>\$ 6,829</u>	<u>\$ 0</u>	<u>\$ 8,905</u>

ATLANTA COMMUNITY SCHOOLS  
Montmorency County, Michigan

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 OTHER GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2004

	Food Service Fund	Athletic Fund	1999 Capital Project Fund	Total Other Governmental Funds
<u>Revenue</u>				
Local sources:				
Lunch sales	\$ 38,545	\$ 0	\$ 0	\$ 38,545
Gate receipts	0	17,999	0	17,999
Interest on investments	67	0	17	84
Other	0	15,569	0	15,569
State sources	6,649	0	0	6,649
Federal sources	109,979	0	0	109,979
Total revenue	<u>155,240</u>	<u>33,568</u>	<u>17</u>	<u>188,825</u>
<u>Expenditures</u>				
Current:				
Food services	170,412	0	0	170,412
Athletics	0	82,669	0	82,669
Capital outlay	0	0	7,981	7,981
Other	0	0	1,875	1,875
Total expenditures	<u>170,412</u>	<u>82,669</u>	<u>9,856</u>	<u>262,937</u>
Excess of revenue over (under) expenditures	<u>(15,172)</u>	<u>(49,101)</u>	<u>(9,839)</u>	<u>(74,112)</u>
<u>Other Financing Sources (Uses)</u>				
Operating transfers in	0	54,170	0	54,170
Operating transfers out	(12,508)	0	0	(12,508)
Total other financing sources (uses)	<u>(12,508)</u>	<u>54,170</u>	<u>0</u>	<u>41,662</u>
Excess of revenue and other sources over (under) expenditures and other uses	(27,680)	5,069	(9,839)	(32,450)
Fund balances - beginning of year	<u>27,680</u>	<u>1,755</u>	<u>9,839</u>	<u>39,274</u>
Fund balances - end of year	<u>\$ 0</u>	<u>\$ 6,824</u>	<u>\$ 0</u>	<u>\$ 6,824</u>

INDIVIDUAL FUND SCHEDULES

ATLANTA COMMUNITY SCHOOLS  
Montmorency County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - BUDGET AND ACTUAL  
 SPECIAL REVENUE FUNDS  
For the Year Ended June 30, 2004

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
<u>Revenue</u>			
Local sources:			
Lunch sales	\$ 42,000	\$ 38,545	\$ (3,455)
Gate receipts	17,000	17,999	999
Interest on investments	0	67	67
Other	18,000	15,569	(2,431)
State sources	4,500	6,649	2,149
Federal sources	<u>120,000</u>	<u>109,979</u>	<u>(10,021)</u>
Total revenue	<u>201,500</u>	<u>188,808</u>	<u>(12,692)</u>
<u>Expenditures</u>			
Current:			
Food services	171,600	170,412	1,188
Athletics	<u>79,893</u>	<u>82,669</u>	<u>(2,776)</u>
Total expenditures	<u>251,493</u>	<u>253,081</u>	<u>(1,588)</u>
Excess of revenue over (under) expenditures	(49,993)	(64,273)	(14,280)
<u>Other Financing Sources (Uses)</u>			
Operating transfers in	50,893	54,170	3,277
Operating transfers out	<u>0</u>	<u>(12,508)</u>	<u>(12,508)</u>
Total other financing sources (uses)	<u>50,893</u>	<u>41,662</u>	<u>(9,231)</u>
Excess of revenue and other sources over (under) expenditures	900	(22,611)	(23,511)
Fund balances - beginning of year	<u>29,435</u>	<u>29,435</u>	<u>0</u>
Fund balances - end of year	<u>\$ 30,335</u>	<u>\$ 6,824</u>	<u>\$ (23,511)</u>

ATLANTA COMMUNITY SCHOOLS  
Montmorency County, Michigan

GENERAL FUND  
 DETAILS OF REVENUE COMPARED TO BUDGET  
For the Year Ended June 30, 2004

	2004 Amended Budget	2004 Actual	2003 Actual
<u>Local Sources</u>			
Current property taxes	\$ 1,520,583	\$ 1,520,223	\$ 1,460,564
Drivers education - tuition	4,550	8,255	5,500
Summer school tuition	0	0	8,000
Interest on investments	5,500	5,244	6,913
Donations	16,106	10,261	0
Special Ed act 18 grant	65,266	45,402	65,266
School success	5,000	5,000	5,000
Medicaid outreach	15,000	22,878	20,547
Career preparation	0	0	7,718
Miscellaneous	22,445	66,527	33,255
	<u>1,654,450</u>	<u>1,683,790</u>	<u>1,612,763</u>
<u>State Sources</u>			
State aid foundation allowance	1,752,946	1,751,180	1,914,959
Nonplaintiff Durant settlement	5,139	5,139	5,139
At risk	135,009	129,115	127,948
Early childhood education	104,805	83,205	126,217
Adult education	9,675	2,306	72,385
Drivers education	0	2,712	3,105
Gifted and talented	0	0	1,239
Vocational education	7,027	5,856	1,615
School lunch	7,294	0	0
	<u>2,021,895</u>	<u>1,979,513</u>	<u>2,252,607</u>
<u>Federal Sources</u>			
E.C.I.A. Title I - regular	281,371	273,655	233,553
Title II - Part A - Improving teacher quality	68,085	66,393	42,275
Title II - Part D - Technology	6,060	6,060	6,764
Title V - Part A - LEA Allocation	10,504	10,504	8,733
Title VI Part B - Rural and low income schools	0	0	4,336
Drug free grant	5,587	5,587	21,402
Eisenhower professional development grant	0	0	1,863
Michigan rural systems initiative	0	635	0
Improving teacher quality	1,692	1,692	0
	<u>373,299</u>	<u>364,526</u>	<u>318,926</u>
<u>Other Financing Sources</u>			
Capital lease proceeds	0	0	180,624
Sale of fixed assets	0	1,750	58,616
Operating transfers in:			
Food service fund	5,000	12,508	0
Construction fund	0	0	25,500
	<u>5,000</u>	<u>14,258</u>	<u>264,740</u>
Total Revenue and Other Financing Sources	<u>\$ 4,054,644</u>	<u>\$ 4,042,087</u>	<u>\$ 4,449,036</u>

ATLANTA COMMUNITY SCHOOLS  
Montmorency County, Michigan

GENERAL FUND  
DETAILS OF EXPENDITURES COMPARED TO BUDGET  
For the Year Ended June 30, 2004

	2004 Amended Budget	2004 Actual	2003 Actual
<u>Instruction</u>			
Basic Programs:			
Elementary:			
Salaries	\$ 431,061	\$ 454,087	\$ 541,745
Early retirements	6,500	6,484	6,500
Employee benefits	168,382	185,366	204,815
Purchased services	0	0	75
Supplies, materials and other	19,749	32,250	21,048
	<u>625,692</u>	<u>678,187</u>	<u>774,183</u>
Junior High and High Schools:			
Salaries	661,618	647,104	713,425
Early retirements	19,500	19,500	54,800
Employee benefits	289,899	291,652	285,053
Purchased services	3,354	3,859	1,959
Supplies, materials and other	27,467	47,416	24,832
	<u>1,001,838</u>	<u>1,009,531</u>	<u>1,080,069</u>
Total basic programs	<u>1,627,530</u>	<u>1,687,718</u>	<u>1,854,252</u>
Added Needs:			
Special Education:			
Salaries	134,858	138,486	207,561
Employee benefits	67,103	69,223	74,510
Supplies, materials and other	4,456	3,185	5,093
	<u>206,417</u>	<u>210,894</u>	<u>287,164</u>
Early Childhood:			
Salaries	62,941	54,732	47,319
Employee benefits	26,218	26,841	21,563
Purchased services	500	287	0
Supplies, materials and other	2,100	1,052	4,407
	<u>91,759</u>	<u>82,912</u>	<u>73,289</u>

ATLANTA COMMUNITY SCHOOLS  
Montmorency County, Michigan

GENERAL FUND  
DETAILS OF EXPENDITURES COMPARED TO BUDGET  
For the Year Ended June 30, 2004

	2004 Amended Budget	2004 Actual	2003 Actual
<u>Instruction</u> (Continued)			
Added Needs: (Continued)			
Summer School:			
Salaries	\$ 0	\$ 0	\$ 9,815
Employee benefits	0	0	1,561
Supplies, materials and other	0	0	382
	<u>0</u>	<u>0</u>	<u>11,758</u>
At-Risk - Section 31A:			
Salaries	89,030	86,213	86,012
Employee benefits	42,728	40,903	37,717
Purchases services	2,000	2,000	3,000
	<u>133,758</u>	<u>129,116</u>	<u>126,729</u>
E.C.I.A. - Title I:			
Salaries	176,256	172,912	149,586
Employee benefits	65,886	67,553	51,289
Purchases services	7,990	970	7,802
Supplies, materials and other	6,144	301	27,945
	<u>256,276</u>	<u>241,736</u>	<u>236,622</u>
Title II Part A - Improving Teacher Quality:			
Salaries	42,046	37,428	33,941
Employee benefits	10,082	16,375	6,988
Purchases services	3,196	678	300
Supplies, materials and other	9,891	6,424	9,123
	<u>65,215</u>	<u>60,905</u>	<u>50,352</u>
Title V - Improvement of Instruction:			
Supplies, materials and other	<u>0</u>	<u>0</u>	<u>7,760</u>
Title VI Part B - Rural and Low-Income Schools:			
Supplies, materials and other	<u>0</u>	<u>0</u>	<u>1,050</u>
Eisenhower Grant:			
Salaries	0	0	1,250
Employee benefits	0	0	248
Purchases services	0	0	92
	<u>0</u>	<u>0</u>	<u>1,590</u>

ATLANTA COMMUNITY SCHOOLS  
Montmorency County, Michigan

GENERAL FUND  
DETAILS OF EXPENDITURES COMPARED TO BUDGET  
For the Year Ended June 30, 2004

	2004 Amended Budget	2004 Actual	2003 Actual
<u>Instruction</u> (Continued)			
Added Needs: (Continued)			
Drug Free Education:			
Salaries	\$ 8,981	\$ 4,631	\$ 11,256
Employee benefits	1,868	956	2,249
Purchases services	0	0	126
Supplies, materials and other	0	0	7,771
	<u>10,849</u>	<u>5,587</u>	<u>21,402</u>
Vocational Education:			
Purchased services	<u>20,000</u>	<u>22,536</u>	<u>2,089</u>
Career Preparation:			
Salaries	0	0	492
Employee benefits	0	0	102
Supplies, materials and other	0	0	8,860
	<u>0</u>	<u>0</u>	<u>9,454</u>
Alternative Education:			
Salaries	69,688	66,113	70,451
Employee benefits	41,284	47,942	26,305
Purchases services	9,400	7,861	7,581
Supplies, materials and other	3,000	3,221	1,306
	<u>123,372</u>	<u>125,137</u>	<u>105,643</u>
Gifted and Talented:			
Salaries	0	0	55
Employee benefits	0	0	11
Purchased services	0	0	12
Supplies, materials and other	0	0	211
	<u>0</u>	<u>0</u>	<u>289</u>
Total added needs	<u>907,646</u>	<u>878,823</u>	<u>935,191</u>



ATLANTA COMMUNITY SCHOOLS  
Montmorency County, Michigan

GENERAL FUND  
DETAILS OF EXPENDITURES COMPARED TO BUDGET  
For the Year Ended June 30, 2004

	2004 Amended Budget	2004 Actual	2003 Actual
<u>Instruction</u> (Continued)			
Adult Continuing Education:			
Basic:			
Salaries	\$ 0	\$ 0	\$ 20,688
Employee benefits	0	0	4,199
Purchased services	0	0	6,394
Supplies, materials and other	0	0	1,100
	<u>0</u>	<u>0</u>	<u>32,381</u>
Total Instruction	<u>2,535,176</u>	<u>2,566,541</u>	<u>2,821,824</u>
<u>Support Services</u>			
Pupil Services:			
Guidance Services:			
Salaries	27,023	26,865	50,338
Employee benefits	1,714	2,041	20,625
Purchased services	0	0	4,000
	<u>28,737</u>	<u>28,906</u>	<u>74,963</u>
Health Services:			
Supplies, materials and other	<u>550</u>	<u>268</u>	<u>443</u>
Speech Therapy Services:			
Purchased services	<u>0</u>	<u>0</u>	<u>6,562</u>
Total pupil services	<u>29,287</u>	<u>29,174</u>	<u>81,968</u>
Instructional Staff:			
Professional Development:			
Salaries	0	0	3,478
Employee benefits	0	0	664
Supplies, materials and other	0	0	6,948
	<u>0</u>	<u>0</u>	<u>11,090</u>

ATLANTA COMMUNITY SCHOOLS  
Montmorency County, Michigan

GENERAL FUND  
DETAILS OF EXPENDITURES COMPARED TO BUDGET  
For the Year Ended June 30, 2004

	2004 Amended Budget	2004 Actual	2003 Actual
<u>Support Services</u> (Continued)			
Instructional Staff: (Continued)			
Library:			
Salaries	\$ 23,401	\$ 19,811	\$ 70,229
Employee benefits	17,089	9,657	24,666
Purchased services	0	0	1,969
Supplies, materials and other	2,000	2,372	5,256
	<u>42,490</u>	<u>31,840</u>	<u>102,120</u>
Total instructional staff	<u>42,490</u>	<u>31,840</u>	<u>113,210</u>
General Administration:			
Board of Education:			
Salaries	5,500	4,075	6,725
Purchased services	63,500	69,998	21,282
Supplies, materials and other	1,500	1,800	282
	<u>70,500</u>	<u>75,873</u>	<u>28,289</u>
Executive Administration:			
Salaries	75,072	112,986	116,797
Early retirements	25,500	13,825	5,000
Employee benefits	12,681	20,630	33,108
Purchased services	0	0	1,506
Supplies, materials and other	7,500	17,213	0
	<u>120,753</u>	<u>164,654</u>	<u>156,411</u>
Total general administration	<u>191,253</u>	<u>240,527</u>	<u>184,700</u>
School Administration:			
Office of the Principal:			
Salaries	166,346	173,792	191,561
Employee benefits	68,587	77,666	90,781
Purchased services	2,540	3,558	0
Supplies, materials and other	9,000	14,333	9,084
	<u>246,473</u>	<u>269,349</u>	<u>291,426</u>

ATLANTA COMMUNITY SCHOOLS  
Montmorency County, Michigan

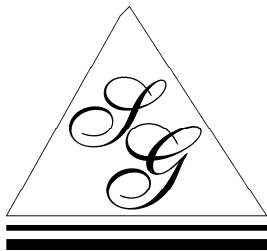
GENERAL FUND  
DETAILS OF EXPENDITURES COMPARED TO BUDGET  
For the Year Ended June 30, 2004

	2004 Amended Budget	2004 Actual	2003 Actual
<u>Support Services</u> (Continued)			
School Administration: (Continued)			
Adult Education Administration:			
Salaries	\$ 0	\$ 0	\$ 31,538
Employee benefits	0	0	18,580
Purchased services	0	0	1,122
Supplies, materials and other	0	0	652
	<u>0</u>	<u>0</u>	<u>51,892</u>
Community Education Administration:			
Purchased services	0	0	7,150
	<u>0</u>	<u>0</u>	<u>7,150</u>
Total school administration	<u>246,473</u>	<u>269,349</u>	<u>350,468</u>
Business Services:			
Purchased services	33,575	33,575	28,536
Supplies, materials and other	0	0	970
Total business services	<u>33,575</u>	<u>33,575</u>	<u>29,506</u>
Fiscal Services:			
Salaries	53,556	55,811	67,345
Employee benefits	36,345	35,013	27,319
Purchased services	14,750	17,448	0
Supplies, materials and other	17,000	10,006	9,927
Total fiscal services	<u>121,651</u>	<u>118,278</u>	<u>104,591</u>
Central Services:			
Operation and Maintenance:			
Salaries	120,323	131,694	180,232
Early retirements	0	0	27,637
Employee benefits	65,321	67,346	87,872
Purchased services	160,973	152,456	164,316
Supplies, materials and other	23,675	20,333	23,674
	<u>370,292</u>	<u>371,829</u>	<u>483,731</u>

ATLANTA COMMUNITY SCHOOLS  
Montmorency County, Michigan

GENERAL FUND  
DETAILS OF EXPENDITURES COMPARED TO BUDGET  
For the Year Ended June 30, 2004

	2004 Amended Budget	2004 Actual	2003 Actual
<u>Support Services</u> (Continued)			
Central Services: (Continued)			
Computer Technology:			
Salaries	\$ 29,867	\$ 39,066	\$ 62,010
Employee benefits	9,738	19,260	21,274
Purchased services	23,822	9,259	14,176
Supplies, materials and other	4,582	3,959	22,851
	<u>68,009</u>	<u>71,544</u>	<u>120,311</u>
Transportation:			
Salaries	101,397	108,643	144,817
Employee benefits	35,147	39,092	45,575
Purchased services	12,127	11,069	7,560
Supplies, materials and other	23,969	20,911	24,865
	<u>172,640</u>	<u>179,715</u>	<u>222,817</u>
Total central services	<u>610,941</u>	<u>623,088</u>	<u>826,859</u>
Total Support Services	<u>1,275,670</u>	<u>1,345,831</u>	<u>1,691,302</u>
<u>Other Services</u>			
Purchased services	<u>0</u>	<u>0</u>	<u>9,690</u>
<u>Debt Service</u>			
Principal retirement	41,765	41,316	49,169
Interest and fiscal charges	<u>36,562</u>	<u>36,693</u>	<u>6,666</u>
Total debt service	<u>78,327</u>	<u>78,009</u>	<u>55,835</u>
<u>Capital Outlay</u>			
Instruction	0	0	210,365
Support services	<u>0</u>	<u>0</u>	<u>50,252</u>
Total capital outlay	<u>0</u>	<u>0</u>	<u>260,617</u>
<u>Other Financing Uses</u>			
Operating transfers out:			
Athletic Fund	34,659	54,170	58,764
Food Service Fund	<u>1,176</u>	<u>0</u>	<u>1,217</u>
Total transfers out	<u>35,835</u>	<u>54,170</u>	<u>59,981</u>
Total Expenditures and Other Financing Uses	<u>\$ 3,925,008</u>	<u>\$ 4,044,551</u>	<u>\$ 4,899,249</u>



*Stephenson Gracik & Co., P.C.*

Certified Public Accountants & Consultants

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Donald W. Brannan, CPA  
Kyle E Troyer, CPA

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Herman A Bertuleit, CPA

August 26, 2004

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Education  
Atlanta Community Schools  
Montmorency County, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Atlanta Community Schools, Montmorency County, Michigan, as of and for the year ended June 30, 2004, which collectively comprise the School District's basic financial statements and have issued our report thereon dated August 26, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Atlanta Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of Atlanta Community Schools in a separate letter dated August 26, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Atlanta Community Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Atlanta Community Schools' ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described below.

General Bank Account

The General Fund bank reconciliation was over the general ledger by approximately \$132,000 at June 30, 2004. The bank reconciliation was over the general ledger by approximately \$1,700 at June 30, 2003. Approximately \$75,000 of the difference at June 30, 2004 involved the recording of year-end payables at June 30, 2004. We posted several audit adjustments to correct the balance. In the future, we recommend the balance be reviewed monthly to ensure it is in agreement with the general ledger, and any adjustments be posted at that time.

School Lunch Fund Bookkeeping

An individual in the school business office was responsible for maintaining a monthly spreadsheet of the school lunch fund receipts and disbursements each month. Not all of the activity was posted to the general ledger. Audit adjustments were posted to record the activity through June 30 on the general ledger. All school lunch fund activity must be entered into the general ledger software on a monthly basis by accounting personnel.

Fund Balance Accounts

While reviewing the fund balance accounts in each of the funds, we found that the accounts were not in agreement with the June 30, 2003 audited fund balance amounts. This was the result of the June 30, 2003 year-end close not being done properly, and the balances were not subsequently corrected as they should have been. We posted several adjustments to correct the fund balance accounts. We recommend that the fund balance accounts be reviewed each year after the audit adjustments have been posted to ensure they are in agreement with the audited fund balance amounts.

Due To and Due From Accounts

All due to and due from accounts between the funds must balance. The accounts did not balance as of June 30, 2003, and several audit adjustments were posted to balance the accounts. The accounts did not balance again as of June 30, 2004, primarily because of the improper year end close at June 30, 2003 that was not subsequently corrected. We posted several audit adjustments again at June 30, 2004 to correct the balances. We recommend comparing these accounts on a monthly basis and adjusting them monthly to ensure they are in agreement between the funds.

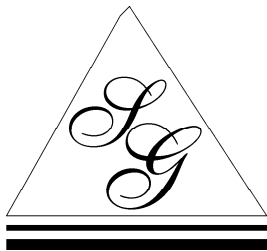
Balancing of Individual Funds

Several of the funds were out of balance as a result of the June 30, 2003 year-end close. The differences were not subsequently investigated and corrected in the year ended June 30, 2004. The trial balance for each fund individually should always add up to zero to show that it is in balance. This should be checked as part of the month-end reconciliation process, and adjusted if necessary.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider all of the items to be material weaknesses. We also noted other matters involving the internal control over financial reporting that we have reported to management of Atlanta Community Schools, in a separate letter dated August 26, 2004.

This report is intended solely for the information and use of the Board of Education, management, and the Michigan Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

*Stephenson, Grath & Co., P.C.*



# *Stephenson Gracik & Co., P.C.*

Certified Public Accountants & Consultants

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Herman A Bertuleit, CPA

August 26, 2004

Board of Education  
Atlanta Community Schools  
Montmorency County, Michigan

Dear Board Members:

We have audited the financial statements of the Atlanta Community Schools for the year ended June 30, 2004, and have issued our report thereon dated August 26, 2004. Professional standards require that we provide you with the following information related to our audit.

## Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated September 10, 2003, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the basic financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Atlanta Community Schools'. Such considerations were solely for the purpose of determining our audit procedures, and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

## Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Atlanta Community Schools are described in Note 1 to the financial statements. As described in Note 2 to the financial statements, the School District changed accounting policies related to a new financial reporting model by adopting Statement of Governmental Accounting Standards (GASB Statement) no. 34, Basic Financial Statements and Management's Discussion and Analysis, for state and local governments, in the year ended June 30, 2004. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the governmental funds balance sheet. We noted no transactions entered into by Atlanta Community Schools during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

## Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

## Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the basic financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Atlanta Community Schools' financial reporting process (that is, cause future financial statements to be materially misstated). The Business Manager made us aware of errors in the general fund cash balance at the beginning of the audit. We were asked to investigate and correct

the errors. As a result, we posted audit adjustments of \$132,000 to correct the general fund bank balance on the general ledger. In our judgment, these adjustments whether recorded or unrecorded by Atlanta Community Schools, either individually or in the aggregate, indicate matters that could have a significant effect on the School District's financial reporting process.

#### Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the basic financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

#### Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require that consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Atlanta Community Schools' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

#### Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

#### Additional Information

As a result of our study and evaluation of the internal controls as described in the third paragraph, certain matters came to our attention upon which we would like to comment and offer the following recommendations. We would also like to discuss the status of last year's recommendations.

#### Athletic Fund Budget

In the prior year, the Athletic Fund did not adopt a budget until the January 13, 2003 board meeting. All Special Revenue Funds are required under Michigan Law to adopt a budget before the start of the fiscal year. We noted the budget was adopted before July 1, 2003 for the 2004 fiscal year.

#### Athletic Fund Gate Receipts

In the prior year, the ticket sales at athletic events were not reconciled to the summary sheets of the gate receipts. We recommended all tickets collected at athletic events be reconciled to the summary sheets of the gate receipts. This was corrected in the year ended June 30, 2004.

#### Chart of Accounts

The State of Michigan updated the school district chart of accounts in the year ended June 30, 2003. We recommended the District update their current chart of accounts to comply with the new state chart of accounts by June 30, 2004, and we noted this had been done. This change will allow the school districts in Michigan to electronically file their Form B for the year ended June 30, 2004.

#### Account Reconciliations

In the prior year, we noted that while the business manager had prepared several account reconciliations that required adjustments on the general ledger, none of the adjustments were posted to the general ledger. In the year ended June 30, 2004, we noted all the year-end account reconciliations had been prepared, and substantially all of the adjustments had been posted to the general ledger with the exception of the fund balance, due to and due from accounts, and the General Fund cash balance discussed below.



#### Coaches Wages

Last year, we noted several coaches that were employees of the School District were paid as independent contractors. This was discussed with the payroll clerk who added the coaches to the payroll system immediately during the 2002/2003 audit. We found that all coaches were correctly paid as either employees or independent contractors for the year ended June 30, 2004.

#### Lack of Segregation of Duties

In the prior year, the business manager was responsible for all of the cash receipting, bookkeeping, general journal entries and bank reconciliations of the School District. In addition, the business manager was also an authorized check signer for the payroll account which only required one signature. The monthly general ledgers, general journal entries and bank reconciliations were not reviewed by any other individuals. Currently the bank reconciliations and monthly journal entries are being prepared by the business manager and being reviewed by Tony Suszek from the local ISD. We also noted that the business manager is no longer an authorized check signer on any bank accounts. We recommend somebody independent of the cash receipting process receive the bank statements unopened from the bank, review the statement and canceled checks, and then forward the statement to the business manager for reconciliation. Once completed, the bank reconciliations should be returned to the first individual for review and approval.

#### Cash Receipts

We found that the general ledger account number is recorded only on the yellow copy of the cash receipt which is removed from the cash receipt book. In order to provide a better audit trail we recommend that the account number also be recorded on the copy of the receipt which is left in the bound receipt book.

#### General Bank Account

The General Fund bank reconciliation was over the general ledger by approximately \$132,000 at June 30, 2004. The bank reconciliation was over the general ledger by approximately \$1,700 at June 30, 2003. Approximately \$75,000 of the difference at June 30, 2004 involved the recording of year-end payables at June 30, 2004. We posted several audit adjustments to correct the balance. In the future, we recommend the balance be reviewed monthly to ensure it is in agreement with the general ledger, and any adjustments be posted at that time.

#### Fund Balance Accounts

While reviewing the fund balance accounts in each of the funds, we found that the accounts were not in agreement with the June 30, 2003 audited fund balance amounts. This was the result of the June 30, 2003 year-end close not being done properly, and the balances were not subsequently corrected as they should have been. We posted several adjustments to correct the fund balance accounts. We recommend that the fund balance accounts be reviewed each year after the audit adjustments have been posted to ensure they are in agreement with the audited fund balance amounts.

#### Due To and Due From Accounts

All due to and due from accounts between the funds must balance. The accounts did not balance as of June 30, 2003, and several audit adjustments were posted to balance the accounts. The accounts did not balance again as of June 30, 2004, primarily because of the improper year end close at June 30, 2003 that was not subsequently corrected. We posted several audit adjustments again at June 30, 2004 to correct the balances. We recommend comparing these accounts on a monthly basis and adjusting them monthly to ensure they are in agreement between the funds.

#### Balancing of Individual Funds

Several of the funds were out of balance as a result of the June 30, 2003 year-end close. The differences were not subsequently investigated and corrected in the year ended June 30, 2004. The trial balance for each fund individually should always add up to zero to show that it is in balance. This should be checked as part of the month-end reconciliation process, and adjusted if necessary.

Budget Control

We noted that the School District's General Fund and Special Revenue Funds included expenditures in some functions that exceeded appropriated amounts. We recommend that the Board of Education continue to amend the budgets for all funds periodically as needed and take into consideration year end accounts payable and recurring year end audit adjustments.

School Lunch Fund Bookkeeping

An individual in the school business office was responsible for maintaining a monthly spreadsheet of the school lunch fund receipts and disbursements each month. Not all of the activity was posted to the general ledger. Audit adjustments were posted to record the activity through June 30 on the general ledger. All school lunch fund activity must be entered into the general ledger software on a monthly basis by the business manager.

State Categorical Grants

At June 30, 2004, there was approximately \$18,642 of unspent at-risk funding and \$12,662 of unspent Michigan School Readiness funding. The State requires these amounts be classified as deferred revenues until expenditures are made. Also when deferred revenue is being calculated, the beginning deferred revenue balance needs to be taken into consideration as revenue available in the current year only up to expenditures made in the current year.

Capital Assets

The District had an appraisal done through June 30, 2004 for the GASB 34 presentation on the financial statements. However, there were items missing from the appraisal, and some of the useful lives of fixed assets did not agree with the American School Business Officials schedule. We recommend the appraiser receive the audit changes that were done to the appraisal so he may update his records accordingly.

Capitalization Policy

A capitalization policy needs to be officially adopted by the Board. We followed a standard policy of \$5,000 using straight-line depreciation, with no depreciation taken in the year of acquisition and a full year taken in the year of disposal, using the ASBO schedule of useful lives.

We wish to express our appreciation for the cooperation and courtesies extended our staff by management and employees of the School District.

This information is intended solely for the use of the Board of Education, management, and the Michigan Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.

*Stephenson, Gratch & Co., P.C.*